

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Oscoda County Road Commission	County Oscoda
Fiscal Year End 12/31/05	Opinion Date 4/22/06	Date Audit Report Submitted to State 8/4/06	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES
NO

Check each applicable box below. (See instructions for further detail.)

- ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
- ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
- ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
- ☒ ☐ The local unit has adopted a budget for all required funds.
- ☒ ☐ A public hearing on the budget was held in accordance with State statute.
- ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
- ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
- ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
- ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
- ☒ ☐ The local unit is free of repeated comments from previous years.
- ☒ ☐ The audit opinion is UNQUALIFIED.
- ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
- ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
- ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>	No items		
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name) Robertson & Carpenter CPA's P.C.		Telephone Number 989-826-5442		
Street Address P.O. Box 308		City Mio	State MI	Zip 48647
Authorizing CPA Signature		Printed Name Robert J. Carpenter		License Number 1101008247

**Oscoda County Road Commission
Mio, Michigan
Financial Report
With Supplementary Information
December 31, 2005**

Oscoda County Road Commission

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INDEPENDENT AUDITOR'S REPORT

Board of County Road Commissioners
Oscoda County
Mio, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of the Oscoda County Road Commission as of and for the year ended December 31, 2005, which collectively comprise the Road Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Oscoda County Road Commission's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above, present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Oscoda County Road Commission as of December 31, 2005, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages 2 through page 8 and pages 24-25 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Robertson & Carpenter P.C.
Certified Public Accountants
April 22, 2006

Oscoda County Road Commission

Management's Discussion and Analysis for Fiscal Year Ended December 31, 2005

Our discussion and analysis of Oscoda County Road Commission's financial performance provides an overview of the Road Commission's financial activities for the calendar year ended December 31, 2005. This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Road Commission and present a long-term view of the Road Commission's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Road Commission's operations in more detail than the government-wide financial statements.

Overview of the Financial Statements

This annual report consists of four parts—management's discussion and analysis (this section), the basic financial statements, required supplementary information, and an additional section that presents the operating fund broken down between primary, local and county funds. The basic financial statements include two kinds of statements that present a different view of the Road Commission:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Road Commission's overall financial status. These statements report information about the Road Commission as a whole using accounting methods similar to those used by private-sector companies. The Statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid. The two government-wide statements report the Road Commission's net assets and how they have changed. "Net assets" is the difference between the assets and liabilities—this is one way to measure the Road Commission's financial health or position.
- The remaining statements are fund financial statements that focus on the individual funds; reporting the operations in more detail than the government-wide statements.

Reporting the Commission as a Whole

Government-Wide Statements

The statement of net assets and the statement of activities report information about the Road Commission, as a whole, and about its activities in a way that helps answer the question of whether the Road Commission, as a whole, is better off or worse off as a result of the year's activities. The statement of net assets includes all of the Road Commission's assets and liabilities using the accrual basis of accounting, which is similar to the accounting method used by most private-sector companies. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two statements, mentioned above, report the Road Commission's net assets and how they have changed. The reader can think of the Road Commission's net assets (the difference between assets and liabilities) as one way to measure the Road Commission's financial health or financial position. Over time, increases or decreases in the Road Commission's net assets are one indicator of whether its financial health is improving or deteriorating, respectively. To assess the overall health of the Road Commission, additional nonfinancial factors such as changes in the condition of the Road Commission's roads, and changes in the law related to the gas taxes and its distribution need to be considered.

Oscoda County Road Commission

Management's Discussion and Analysis for Fiscal Year Ended December 31, 2005

Reporting the Commission as a Whole (Continued)

Fund Financial Statements

The Road Commission currently has only one fund, the general operations fund. All of the Road Commission's activities are accounted for in this fund. The general operations fund is a governmental fund type. Our analysis of the Road Commission's major fund begins on page 3. The fund financial statements begin on page 4 and provide detailed information about the major fund.

Governmental funds focus on how money flows into and out of this fund and the balances left at year end that are available for spending. This fund is reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Road Commission's general governmental operations and the basic service it provides. Governmental fund information helps the reader to determine whether there are more or fewer financial resources that can be spent in the near future to finance the Road Commission's services. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and the governmental fund in a reconciliation following the fund financial statements.

Financial Analysis of the Road Commission as a Whole

The Road Commission's net assets increased approximately 5% or \$286,681 from \$5,547,301 to \$5,833,982 for the year ended December 31, 2005. The net assets and change in net assets are summarized below.

Net Assets

Restricted net assets are those net assets that have constraints placed on them by either: a) externally imposed by creditors, grantors, contributions, or laws or regulations of other governments; or b) imposed by law through constitutional provisions or enabling legislation. Enabling legislation authorizes the government to assess, levy, charge or otherwise mandate payment of resources and includes a legally enforceable requirement that those resources be used only for the specific purpose stipulated in the legislation. As such all assets (except for assets invested in capital assets, net of related debt) are considered restricted.

The restricted net assets decreased by (\$165,430) during the year ended December 31, 2005. The primary reason for the decrease was a decrease in State Aid revenues.

The investment in capital assets, net of related debt, increased by \$452,111. The increase in net assets is primarily the result of the investment in infrastructure for the year 2005. The depreciation for the current year's infrastructure additions will be recorded in the following year.

Oscoda County Road Commission

Management's Discussion and Analysis
for Fiscal Year Ended December 31, 2005

Financial Analysis of the Road Commission as a Whole (Continued)

Net Assets as of years ended December 31, 2005 and 2004 follow:

	<u>2005</u>	<u>2004</u>	<u>Variance</u>
Current and Other Assets	\$1,807,516	\$1,975,781	\$ (168,265)
Capital Assets	<u>4,217,160</u>	<u>3,765,049</u>	<u>452,111</u>
Total Assets	<u>6,024,676</u>	<u>5,740,830</u>	<u>283,846</u>
Long-Term Debt Outstanding	128,872	127,609	1,263
Other Liabilities	<u>61,822</u>	<u>65,920</u>	<u>(4,098)</u>
Total Liabilities	<u>190,694</u>	<u>193,529</u>	<u>(2,835)</u>
Net Assets			
Invested in Capital Assets			
Net of Debt	4,217,160	3,765,049	452,111
Restricted	<u>1,616,822</u>	<u>1,782,252</u>	<u>(165,430)</u>
Total Net Assets	<u>\$5,833,982</u>	<u>\$5,547,301</u>	<u>\$ 286,681</u>

Oscoda County Road Commission

Management's Discussion and Analysis for Fiscal Year Ended December 31, 2005

Financial Analysis of the Road Commission as a Whole (Continued)

Changes in Net Assets

A Summary of changes in net assets for the years ended December 31, 2005 and 2004 follows:

	<u>Governmental</u> <u>2005</u>	<u>Activities</u> <u>2004</u>
Program Revenue		
License and Permits	\$ 17,232	\$ 20,427
Federal Grants	51,133	1,637,044
State Grants	2,452,099	2,886,946
Contributions from Local Units	173,784	331,045
Charges for Services	2,193	4,922
Investment Earning	21,609	7,392
General Revenue		
Other Revenue	6,198	729
Gain (Loss) on Equipment Disposal	<u>2,713</u>	<u>(4,263)</u>
Total Revenue	<u>2,726,961</u>	<u>4,884,242</u>
Expenses		
Public Works	<u>2,440,280</u>	<u>2,179,800</u>
Total Expenses	<u>2,440,280</u>	<u>2,179,800</u>
Increase (Decrease) in Net Assets	<u>\$ 286,681</u>	<u>\$2,704,442</u>

The Road Commission's Fund

The Road Commission's general operations fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the county which are earmarked by law for road and highway purposes.

For the year ended December 31, 2005, the fund balance of the general operations fund decreased (\$164,167) as compared to an increase of \$157,389 in the fund balance for the year ended December 31, 2004. Total operating revenues were \$2,726,961, a decrease of (\$2,157,281) as compared to last year. This change in revenue resulted primarily from decreases in federal funding of (\$1,585,911), state funding (\$434,847), and funding from local units (\$157,261).

Total expenditures were \$2,891,128, a decrease of (\$1,835,725) as compared to last year. This change in expenditures is due primarily to a decrease in heavy maintenance of (\$2,376,964) and an increase in maintenance of \$380,691.

Oscoda County Road Commission

Management's Discussion and Analysis for Fiscal Year Ended December 31, 2005

Financial Analysis of the Road Commission as a Whole (Continued)

A summary of changes in the Operating Fund for the 2005 and 2004 years is as follows:

	12/31/05 Operating Fund	12/31/04 Operating Fund	Increase (Decrease) Variance	%
Revenues				
License and Permits	\$ 17,232	\$ 20,427	\$ (3,195)	(16) %
Federal Grants	51,133	1,637,044	(1,585,911)	(97) %
State Grants	2,452,099	2,886,946	(434,847)	(15) %
Contribution from Local Units	173,784	331,045	(157,261)	(48) %
Charges for Services	2,193	4,922	(2,729)	(13) %
Interest and Rents	21,609	7,392	2,143	(55) %
Other Revenue	<u>8,911</u>	<u>(3,534)</u>	<u>12,445</u>	352 %
Total Revenues	<u>2,726,961</u>	<u>4,884,242</u>	<u>(2,157,281)</u>	(44) %
Expenditures				
Public Works	3,085,922	4,926,041	(1,840,119)	(37) %
Net Capital Outlay	<u>(194,794)</u>	<u>(199,188)</u>	<u>(4,394)</u>	(2) %
Total Expenditures	<u>2,891,128</u>	<u>4,726,853</u>	<u>(1,835,728)</u>	(39) %
Excess of Expenditures Over (Under) Revenues	(164,167)	157,389	(321,556)	(204) %
Other Financing Sources				
Proceeds from Lease	<u>0</u>	<u>0</u>	<u>0</u>	
Total Other Financing Sources	<u>0</u>	<u>0</u>	<u>0</u>	
Excess of Revenues and Other Financing Sources Over (Under) Expenditures	(164,167)	157,389	(4,710)	(3) %
Fund Balance-Beginning	<u>1,909,861</u>	<u>1,752,472</u>	<u>162,099</u>	10 %
Fund Balance-Ending	<u>1,745,694</u>	<u>1,909,861</u>	<u>157,389</u>	9 %

Oscoda County Road Commission

Management's Discussion and Analysis for Fiscal Year Ended December 31, 2005

Budgetary Highlights

Prior to the beginning of any year, the Road Commission's budget is compiled based upon certain assumptions and facts available at the time. During the year, the Road Commission board acts to amend its budget to reflect changes in these original assumptions, facts and/or economic conditions that were unknown at the time the original budget was compiled. In addition, by policy, the board reviews and authorizes large expenditures when requested throughout the year.

The final amended revenue budget for the year ended December 31, 2005 was \$156,901 lower than the original budget primarily due to a decrease in revenue from Michigan Transportation funds contributions from local units. The actual revenue recognized during the year ended December 31, 2005 was greater than the final amended budget by \$241,539 due to Michigan Transportation funds exceeding anticipated amounts and also having the revenue for the federal projects added to the year ending 2005. (See page 24 for details)

The final amended expenditure budget for the year ended December 31, 2005 was \$232,629 higher than the original budget due primarily to an increase in road maintenance, heavy maintenance and a decrease in equipment expense. The actual expenditures recognized during the year ended December 31, 2005 were less than the final amended budget by \$57,504. There were unfavorable variances in maintenance expenditures, administration, capital outlay and equipment expense line items. (See page 25 for details)

Capital Asset and Debt Administration

As of December 31, 2005, the Road Commission had invested \$4,217,160 in capital assets. This amount represents an increase (including additions and deductions) of \$452,111 or 12% as follows:

	<u>2005</u>	<u>2004</u>	<u>Total Percentage Change 2004/2005</u>
Capital Assets Not Being Depreciated			
Land and Improvements	\$ <u>71,956</u>	\$ <u>71,956</u>	-0- %
Subtotal	<u>71,956</u>	<u>71,956</u>	-0- %
Capital Assets Being Depreciated			
Buildings	497,181	497,181	-0- %
Equipment	4,052,420	4,150,708	(2) %
Infrastructure-Roads	<u>3,519,996</u>	<u>2,747,617</u>	28 %
Subtotal	<u>8,069,597</u>	<u>7,395,506</u>	9 %
Total Capital Assets	<u>8,141,553</u>	<u>7,467,462</u>	9 %
Total Accumulated Depreciation	<u>(3,924,393)</u>	<u>(3,702,413)</u>	5 %
Total Net Capital Assets	<u>\$4,217,160</u>	<u>\$3,765,049</u>	12 %

Oscoda County Road Commission

Management's Discussion and Analysis for Fiscal Year Ended December 31, 2005

Capital Asset and Debt Administration (Continuation)

The Road Commission reported the infrastructure and related assets during the current year in the amount of \$2,747,617. The infrastructure recorded, during the year ended December 31, 2005 will depreciate in the following year. The infrastructure is financed through federal, state and local contributions.

This year's major capital asset additions included the following:

Infrastructure-Road	\$ 772,379
Road Equipment	30,874
Engineer Equipment	9,064
Office Equipment	<u>750</u>
Total Additions	\$ <u>813,067</u>

During the year ended December 31, 2005, the Road Commission traded in and/or disposed of equipment (road, shop, office, and engineer) with a purchase amount of \$138,976, related depreciation of \$138,976, and a net book value of \$-0-.

Debt

The Road Commission currently experiences a debt free status.

Other obligations include accrued vacation and sick leave. More detailed information about the Road Commission's long-term liabilities is presented in Note 8 of the financial statements.

Economic Factors and Next Year's Budget

The board of county road commissioners considered many factors when setting the fiscal year 2006 budget. One of the factors is the economy. The Road Commission derives approximately 90% of its revenue from the fuel tax collected. Using Michigan Department of Transportation projections, it is estimated that the Road Commission will receive \$2,016 less Michigan Transportation Fund revenues in the year ended December 31, 2006. The Road Commission receives revenue from townships that contribute to local road projects and that depends on what and how much the townships can afford to participate. In 2006 the township contributions are estimated at \$183,405. We do not expect any federal or state aid for road projects this year. The above items were considered when adopting the budget for the year ended December 31, 2006.

The board realizes and the reader should understand that there are not sufficient funds available to repair and/or rebuild every road in Oscoda County's transportation system; therefore, the board attempts to spend the public's money wisely and equitably and in the best interest on the motoring public and the citizens of Oscoda County.

Contacting the Commission's Financial Management

This financial report is designed to provide the motoring public, citizens and other interested parties a general overview of the Road Commission's finances and to show the Road Commission's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the administrative office at 300 W. 8th Street, Mio, Michigan.

**Oscoda County Road Commission
Statement of Net Assets
December 31, 2005**

ASSETS

Cash	\$ 722,713
Accounts Receivable:	
State Department of Transportation:	
Motor Vehicle Highway Funds	368,330
Other	-
Due on County Road Agreements	2,284
Sundry	78,186
Inventories:	
Road Materials	408,939
Equipment Material and Parts	227,064
Capital Assets (Net of Accumulated Depreciation)	4,217,160
Total Assets	<u>6,024,676</u>

LIABILITIES

Current Liabilities	
Accounts Payable	29,076
Accrued Liabilities	32,746
Noncurrent Liabilities	
Compensated Absences - Due After One Year	128,872
Total Liabilities	<u>190,694</u>

Net Assets

Investment in Capital Fixed Assets	
Net of Related Debt	4,217,160
Restricted for County Road	1,616,822
Total Net Assets	<u>\$ 5,833,982</u>

See Accompanying Notes to Financial Statements

**Oscoda County Road Commission
Statement of Activities
Year Ended December 31, 2005**

Program Expenses

Primary Road Maintenance	\$ 405,060
Local Road Maintenance	1,882,349
Net Equipment Expense	(345,727)
Net Administrative Expense	371,861
Infrastructure Depreciation	125,474
Compensated absences	<u>1,263</u>

Total Program Expenses	<u>2,440,280</u>
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Program Revenues

Licenses and Permits	17,232
Federal Aid	51,133
State Aid	2,452,099
Contributions from Local Units	173,784
Charges for Services	2,193
Investment Earnings	<u>21,609</u>

Total Program Revenues	<u>2,718,050</u>
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Net Program Revenues	277,770
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General Revenue

Other Revenue	6,198
Gain (Loss) on Equipment Disposal	<u>2,713</u>

Total General Revenue	<u>8,911</u>
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Change in Net Assets	286,681
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Net Assets ----- January 1, 2005	<u>5,547,301</u>
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Net Assets ----- December 31, 2005	<u><u>\$ 5,833,982</u></u>
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See Accompanying Notes to Financial Statements

**Oscoda County Road Commission
Balance Sheet
December 31, 2005**

	Governmental Fund Type
	General Operating Fund
<u>ASSETS</u>	
Cash	\$ 722,713
Accounts Receivable:	
State Department of Transportation:	
Motor Vehicle Highway Funds	368,330
Other	-
Due on County Road Agreements	2,284
Sundry	78,186
Inventories:	
Road Materials	408,939
Equipment Material and Parts	227,064
Total Assets	<u>\$ 1,807,516</u>

LIABILITIES AND FUND EQUITY

Liabilities	
Accounts Payable	\$ 29,076
Accrued Liabilities	32,746
Total Liabilities	<u>61,822</u>
Fund Equities	
Fund Balance	
Unreserved and Undesignated	1,745,694
Total Fund Equities	<u>1,745,694</u>
Total Liabilities and Fund Equities	<u>\$ 1,807,516</u>

Total Governmental Fund Balance \$ 1,745,694

Amounts reported for governmental activities in the Statement of
Net Assets are different because:

Capital assets used in governmental activities are not financial
resources and therefore are not reported in the funds.

Cost of capital assets is	\$ 8,141,553	
Accumulated depreciation is	<u>(3,924,393)</u>	4,217,160

Long term liabilities are not due and payable in the current period
and are not reported in the fund statements.

Compensated absences	<u>(128,872)</u>
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Net Assets of Governmental Activities \$ 5,833,982

See Accompanying Notes to Financial Statements

Oscoda County Road Commission
Statement of Revenues, Expenditures and Changes in Fund Balance
Year Ended December 31, 2005

Revenues

Licenses and Permits	\$ 17,232
Federal Aid	51,133
State Aid	2,452,099
Contributions from Local Units	173,784
Charges for Services	2,193
Interest and Rents	21,609
Other Revenue	8,911
	<hr/>

Total Revenues	<hr/> 2,726,961
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Expenditures

Public Works	3,085,922
Net Capital Outlay	(194,794)
	<hr/>

Total Expenditures	<hr/> 2,891,128
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Excess of Revenues Over (Under) Expenditures	(164,167)
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Other Financing Sources

Proceeds From Lease Purchase Agreements	<hr/> -
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Total Other Financing Sources	<hr/> -
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Excess of Revenues and Other Financing Sources Over (Under) Expenditures	(164,167)
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Fund Balance ----- January 1, 2005	<hr/> 1,909,861
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Fund Balance ----- December 31, 2005	\$ <hr/> <hr/> 1,745,694
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See Accompanying Notes to Financial Statements

Oscoda County Road Commission
Reconciliation of the Statement of Revenues, Expenditures and Changes in
Fund Balance of Governmental Funds to the Statement of Activities
Year Ended December 31, 2005

Net Change in Fund Balance - Total Governmental Funds	\$	(164,167)
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Amounts reported for governmental activities are different because:

Government funds report capital outlays as expenditures;
in the statement of activities these costs are allocated
over their estimated useful lives as depreciation expense.

Depreciation expense	\$	(360,956)	
Capital Outlay		813,067	
			452,111

Increases in compensated absences are reported as expenditures when financial resources are used in the governmental funds		(1,263)
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Equipment retirement is recorded as an expenditure credit in governmental funds, but not recorded as an expense in the statement of activities		-
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Change in Net Assets of Governmental Activities	\$	<u>286,681</u>
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See Accompanying Notes to Financial Statements

**Oscoda County Road Commission
Fiduciary Funds
Statement of Net Assets
December 31, 2005**

	Trust Fund- Pension Fund
Assets	
Investments - at fair value	\$ <u>870,868</u>
Total assets	\$ <u><u>870,868</u></u>
Liabilities	
Accounts payable	\$ <u>-</u>
Total liabilities	<u>-</u>
Net Assets - Held in Trust for Pension Benefits	\$ <u><u>870,868</u></u>

See accompanying notes to financial statements.

**Oscoda County Road Commission
Fiduciary Fund
Statement of Changes in Net Assets
Year Ended December 31, 2005**

	Trust Fund- Pension Fund
Additions	
Contributions	
Employer	\$ 31,600
Investment earnings	<u>49,230</u>
Total Additions	80,830
 Deductions	
Administrative expenses	3,665
Benefits	<u>80,765</u>
Total deductions	<u>84,430</u>
 Net increase	 (3,600)
 Net Assets Held in Trust for Pension Benefits	
Beginning of the year	<u>874,468</u>
End of the year	\$ <u><u>870,868</u></u>

See accompanying notes to financial statements.

Oscoda County Road Commission
Notes to Financial Statements
December 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Oscoda County Road Commission conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Oscoda County Road Commission.

A. Reporting Entity

The Oscoda County Road Commission, which is established pursuant to the County Road Law (MCL 224.1), is governed by a 3 member elected Board of County Road Commissioners, appointed by the County Board of Commissioners. The Road Commission may not issue debt without the County's approval and property tax levies are subject to the County Board of Commissioner's approval. The Oscoda County Road Commission has not levied any taxes.

The criteria established by the Governmental Accounting Standards Board (GASB) Statement No. 14 "The Financial Reporting Entity" for determining the reporting entity includes oversight responsibility, fiscal dependency and whether the financial statements would be misleading if the component unit data were not included. Based on the above criteria, these financial statements present the Oscoda County Road Commission, a component unit of Oscoda County.

The Road Commission Operating Fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the County, which are earmarked by law for street and highway purposes. The Board of County Road Commissioners is responsible for the administration of the Road Commission Operating Fund.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the activities of the Oscoda County Road Commission. There is only one fund reported in the government-wide financial statements.

The Statement of Net Assets presents the Road Commission's assets and liabilities with the difference being reported as either invested in capital assets, net of related debt, or restricted net assets.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other items not properly included among program revenues are reported instead of general revenue.

**Oscoda County Road Commission
Notes to Financial Statements
December 31, 2005**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Separate financial statements are provided for the Operating Fund (governmental fund). The Operating Fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. Major individual governmental funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Government fund financial statements are reported using the current financial resources measurement focus and then modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when the liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Michigan Transportation funds, grants, permits, township contributions and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

D. Assets, Liabilities, and Net Assets or Equity

Cash, Cash Equivalents and Investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Inventories

Inventories are priced at cost as determined on the average unit cost method. Inventory items are charged to road construction and maintenance, equipment repairs and operations as used.

Prepaid Expenses

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid expense in both the government-wide and fund financial statements.

**Oscoda County Road Commission
Notes to Financial Statements
December 31, 2005**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities, and Net Assets or Equity (continued)

Capital Assets

Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges and similar items), are reported in the operating fund in the government-wide financial statements. Capital assets are defined by the Oscoda County Road Commission as assets with an initial individual cost of \$500 or more and an estimated useful life in excess of two years. Such assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation.

Depreciation

Depreciation is computed on the sum-of-the-year's-digits method for road equipment and straight-line method for all other assets. The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

Building	33-50 years	Office Equipment	5-10 years
Road Equipment	5-8 years	Roads	8-30 years
Shop Equipment	10 years	Bridges	12-50 years
Engineering Equipment	5-10 years		

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the operating fund Statement of Net Assets.

Compensated Absences (Vacation and Sick Leave)

The Road Commission allows its employees to accumulate vacation pay to the maximum of 120 days and accumulate 960 sick pay hours. The sick pay vests when an employee attains the age of 55 and 10 years of seniority. The potential liability for these benefits at December 31, 2005 is approximately \$128,872 and has been recorded in the government-wide financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year-end.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Procedures

Budgetary procedures are established pursuant to PA 621 of 1978, as amended, (MCL 141.421) which requires the county board of road commissioners to approve a budget for the County Road Fund. Pursuant to the Act, the Road Commission's chief financial officer prepares and submits a proposed operating budget to the board of road commissioners for its review and consideration. The board conducts a public budget hearing and adopts the budget following the public hearing. The budget is amended as necessary during the year, and is approved by the board. The budget is prepared on the modified accrual basis of accounting, which is the same basis as the financial statements

Oscoda County Road Commission
Notes to Financial Statements
December 31, 2005

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

Budget Violations

Public Act 2 of 1968, as amended, requires budget amendments as needed to prevent actual expenditures from exceeding those provided for in the budget.

Expenditures that exceeded appropriations are as follows:

	Final Budget	Actual	Variance
Primary Road Maintenance	\$ 879,272	\$ 978,105	\$ 98,833
Local Road Maintenance	1,136,206	1,290,124	153,918
Equipment Expense Net	(621,434)	(345,727)	275,707
Administrative Expense Net	240,000	371,861	131,861
Capital Outlay Net	(259,396)	(194,794)	64,602

NOTE 3 - CASH DEPOSITS AND INVESTMENTS

The cash and investments are classified by in the following categories:

Bank Deposits (Checking Accounts, Savings Accounts, and Certificates of Deposit)	\$ 722,613
Investments in Securities, Mutual Funds, etc.	-
Petty Cash and Cash on Hand	100
	<u>\$ 722,713</u>

Michigan Compiled Laws, Section 129.91, authorized the Road Commission to deposit and invest in the accounts of federally insured banks, credit union, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government for federal agency obligation repurchase agreements; banker's acceptance of United States Banks; commercial paper rated with the two highest classifications, which mature not more than 270 days after the purchase date; obligations of the State of Michigan or its political subdivision which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

Oscoda County Road Commission
Notes to Financial Statements
December 31, 2005

NOTE 3 - CASH DEPOSITS AND INVESTMENTS (Continued)

The Road Commission has adopted the County's investment policy, which is in accordance with the provisions of Public Act 20 of 1943.

The deposits of the Road Commission were reflected in the accounts of one financial institution at \$722,613 of which \$100,281 is covered by federal depository insurance.

Investments

The Road Commission's investments consist of assets (guaranteed interest accounts, bonds, real estate, and stocks) for the Pension Trust Fund purchased from the Principal Mutual Life Insurance Company with a value of \$870,868 at 12/31/05. The nature of the investments does not allow for risk categorization, which is in accordance with GASB Statement No. 3.

Act 314, PA 1965, as amended by Act 31, PA 1980, and Act 55, PA 1982, authorizes the County Road Commission's Pension Trust Fund to invest in a wide variety of investments including stocks, bonds, certificates of deposit, real estate, annuity contracts, obligations of a specified nature, and real or personal property. Specific limitations apply to the various investment types.

The County Road Commission's Pension Trust Fund investments are in accordance with statutory authority.

The Road Commission has not adopted an investment policy that conforms to Governmental Accounting Standards Board Statement #40.

NOTE 4 - DEFERRED COMPENSATION PLAN

The Oscoda County Road Commission offers all its employees a deferred compensation plan created in accordance with the Internal Revenue Code (IRC), Section 457. The assets of the plan are held in trust, (custodial account or annuity contract) as described in IRC Section 457 (g) for the exclusive benefit of the participants (employees) and their beneficiaries. The custodian thereof for the exclusive benefit of the participants holds the custodial account for the beneficiaries of this Section 457 plan, and the assets may not be diverted to any other use. The administrators are agents of the employer (Oscoda County Road Commission) for the purposes of providing direction to the custodian of the custodial account from time to time for the investment of funds held in the account, transfer of assets to or from the account, and all other matters. In accordance with GASB Statement No. 32, plan balances and activities are not reflected in the Oscoda County Road Commission's financial statements

NOTE 5 - FEDERAL GRANTS

The Michigan Department of Transportation (MDOT) requires that road commissions report all Federal and State grants pertaining to their county. During the year ended December 31, 2004, the Federal aid received and expended by the Road Commission was \$ 44,393 for contracted projects and \$6,740 for negotiated projects. Contracted projects are defined as projects performed by private contractors paid for and administered by MDOT (they are included in MDOT's single audit). Negotiated contracts are projects where the road commission administers the grant and either performs the work or contracts it out. The Road Commission would be subject to single audit requirements if they expended \$500,000 or more for negotiated projects.

Oscoda County Road Commission
Notes to Financial Statements
December 31, 2005

NOTE 6 - CAPITAL ASSETS

Capital asset activity of the Oscoda County Road Commission for the current year was as follows:

	Beginning Balances 1/1/05	Additions	Deductions	Ending Balances 12/31/05
Capital Assets Not Being Depreciated				
Land and Land Improvements	\$ 71,956	\$ -	\$ -	\$ 71,956
Capital Assets Being Depreciated				
Buildings	497,181	-	-	497,181
Equipment - Road	3,625,723	30,874	137,964	3,518,633
Equipment - Shop	117,433	-	1,012	116,421
Equipment - Office	33,716	750	-	34,466
Equipment - Engineer	68,953	9,064	-	78,017
Equipment - Yard	304,883	-	-	304,883
Infrastructure - Roads	2,747,617	772,379	-	3,519,996
Subtotal	<u>7,395,506</u>	<u>813,067</u>	<u>138,976</u>	<u>8,069,597</u>
Less Accumulated Depreciation				
Buildings	235,768	19,279	-	255,047
Equipment - Road	3,163,872	192,265	137,964	3,218,173
Equipment - Shop	80,511	6,750	1,012	86,249
Equipment - Office	30,252	1,468	-	31,720
Equipment - Engineer	39,007	6,673	-	45,680
Equipment - Yard	153,003	9,047	-	162,050
Infrastructure - Roads	-	125,474	-	125,474
Subtotal	<u>3,702,413</u>	<u>360,956</u>	<u>138,976</u>	<u>3,924,393</u>
Net Capital Assets Being Depreciated	<u>3,693,093</u>	<u>452,111</u>	<u>-</u>	<u>4,145,204</u>
Total Net Capital Assets	<u>\$ 3,765,049</u>	<u>\$ 452,111</u>	<u>\$ -</u>	<u>\$ 4,217,160</u>

Depreciation expense was charged to the programs of the Oscoda County Road Commission as follows:

Net Equipment Expense	\$ 227,341
Net Administrative Expense	8,141
Infrastructure	<u>125,474</u>
Total Depreciation	<u>\$ 360,956</u>

Oscoda County Road Commission
Notes to Financial Statements
December 31, 2005

NOTE 7 - EMPLOYEE RETIREMENT AND BENEFIT

The Oscoda County Road Commission provides pension benefits for all of its full time employees through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. The Road Commission Plan requires the employer to contribute a specific amount per employee, per month. The contribution for each hourly employee (all are covered by a collective bargaining agreement) was \$25.00 per month for the period of January 1, 2005 - December 31, 2005. The contribution for each salaried employee is \$400.00 per month. The plan does not allow the employees to make contributions. The Road Commission's contributions for each employee (and investment earnings allocated to the employee's account) are fully vested upon the employee's entrance into the plan. The plans assets are shown at market value.

The Road Commission, on April 1, 2000, began covering the hourly employees through a defined benefit plan administered by the Steelworkers Pension Trust. The contribution rate for each employee was \$160 per month until October, 2001, when the rate became \$170 per month.

The Oscoda County Road Commission's total payroll for the year ended December 31, 2005 was \$880,860. The Road Commission's total contributions were computed on the base earnings amount of \$852,727. The Road Commission deposited the required amount of \$31,600 to the defined contribution plan and \$40,800 to the Steelworkers Pension Trust.

NOTE 8 - LONG-TERM DEBT

The Long-Term Debt of the Road Commission is composed of one item, vested vacation and sick leave.

Terms of the vested vacation and sick pay are shown in Note 1 - Compensated Absences.

	Beginning Balance	Additions (Reductions)	Ending Balance	Due Within One Year
Governmental Activities				
Compensated absences	\$ <u>127,609</u>	\$ <u>1,263</u>	\$ <u>128,872</u>	\$ <u>-</u>

**Oscoda County Road Commission
Notes to Financial Statements
December 31, 2005**

NOTE 9 - STATE REVENUE - ALLOCATION

The Road Commission transferred 30.0% of the primary allocation to the Local Road Fund. The transfer was an "optional" transfer in the amount of \$394,499.

NOTE 10 - POST EMPLOYMENT HEALTH CARE BENEFITS

In addition to the pension benefits described in Note 7, the Road Commission provides postretirement health care benefits for retirees who are at least 55 years of age and have 10 years of service. The Road Commission pays the premium expense covering the retiree, spouse and any dependent children up to the age of 25. Coverage is also provided for the spouses of deceased retirees. These benefits were established by Board resolution and are funded on a pay-as-you-go basis. The cost for this benefit during the year ended December 31, 2005 was \$193,729 which covered 25 retirees and spouses of deceased retirees.

Required Supplementary Information

**Oscoda County Road Commission
Required Supplementary Information
Statement of Revenues and Other Financing Sources
Budgetary Comparison Schedule
Year Ended December 31, 2005**

	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Licenses and Permits:				
Permits	\$ 16,785	\$ 14,000	\$ 17,232	\$ 3,232
Federal Aid:				
Surface Trans. Program	-	-	15,668	15,668
D Funds	-	-	13,200	13,200
US Forest Service	-	-	22,265	22,265
State Aid:				
Michigan Transportation Fund:				
Engineering	10,000	10,000	10,000	-
Primary Road	1,200,000	1,091,005	1,314,996	223,991
Local Road	995,756	991,759	1,011,130	19,371
Snow Removal	5,000	9,000	9,121	121
Economic Development:				
Rural Primary (D)	-	-	6,600	6,600
Forest Road	100,252	100,252	100,252	-
Contributions From Local Units:				
Townships	305,136	248,136	173,784	(74,352)
Charges For Services:				
Salvage Sales	2,394	1,770	1,812	42
Other Services	-	-	381	381
Interest and Rents:				
Interest Earned	5,000	16,500	21,609	5,109
Other Revenues:				
Insurance Recoveries	-	-	6,198	6,198
Gain (Loss) on Equipment Disposals	2,000	3,000	2,713	(287)
Total Operating Revenue	<u>2,642,323</u>	<u>2,485,422</u>	<u>2,726,961</u>	<u>241,539</u>
Other Financing Sources				
Proceeds From Lease Purchase Agreements	-	-	-	-
Total Other Financing Sources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Revenues and Other Financing Sources	2,642,323	2,485,422	\$ <u><u>2,726,961</u></u>	\$ <u><u>241,539</u></u>
Fund Balance - January 1, 2005	<u>1,694,942</u>	<u>1,107,408</u>		
Total Budget	\$ <u><u>4,337,265</u></u>	\$ <u><u>3,592,830</u></u>		

**Oscoda County Road Commission
Required Supplementary Information
Statement of Expenditures
Budgetary Comparison Schedule
Year Ended December 31, 2005**

	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Primary Road:				
Construction	\$ -	\$ -	\$ -	\$ -
Heavy Maintenance	100,000	218,935	174,339	44,596
Maintenance	500,000	879,272	978,105	(98,833)
Local Road:				
Heavy Maintenance	1,002,025	1,184,821	592,225	592,596
Maintenance	909,101	1,136,206	1,290,124	(153,918)
Primary Road Structure:				
Heavy Maintenance	-	30,500	24,995	5,505
Maintenance	-	-	-	-
Local Road Structure:				
Heavy Maintenance	-	-	-	-
Maintenance	-	-	-	-
Equipment Expense - Net				
Direct			552,438	
Indirect			387,743	
Operating			178,852	
Less: Equipment Rentals			(1,464,760)	
	(280,885)	(621,434)	(345,727)	(275,707)
Administrative Expense - Net				
Administrative Expense			372,265	
Less: Overhead -State Trunkline			(404)	
	240,356	240,000	371,861	(131,861)
Capital Outlay (Net)				
Capital Outlay			40,688	
Less: Depreciation Credits			(235,482)	
Equipment Retirements			-	
	105,678	(259,396)	(194,794)	(64,602)
Debt Service	-	-	-	-
Total Expenditures	2,576,275	2,808,904	\$ 2,891,128	\$ (82,224)
Fund Balance - December 31, 2005	1,760,990	783,926		
Total Expenditures	\$ 4,337,265	\$ 3,592,830		

Supplementary Information

**Oscoda County Road Commission
General Operating Fund
Analysis of Changes in Available Operating Balances
Year Ended December 31, 2005**

	Primary Road Fund	Local Road Fund	County Road Commission Fund	TOTAL
Total Operating Revenues	\$ 1,504,349	\$ 1,217,131	\$ 5,481	\$ 2,726,961
Total Expenditures	<u>1,015,311</u>	<u>1,882,054</u>	<u>(6,237)</u>	<u>2,891,128</u>
Excess of Revenues Over/(Under) Expenditures	<u>489,038</u>	<u>(664,923)</u>	<u>11,718</u>	<u>(164,167)</u>
Other Financing Sources (Uses):				
Proceeds From Lease Purchase Agreements	-	-	-	-
Optional Transfers In (Out)	(394,499)	394,499	-	-
Interfund Transfers In (Out)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>(394,499)</u>	<u>394,499</u>	<u>-</u>	<u>-</u>
Excess of Revenues and Other Sources Over/(Under) Expenditures and Other (Uses)	94,539	(270,424)	11,718	(164,167)
Beginning Fund Balance - January 1, 2005	<u>1,109,152</u>	<u>510,659</u>	<u>290,050</u>	<u>1,909,861</u>
Ending Fund Balance - December 31, 2005	\$ <u><u>1,203,691</u></u>	\$ <u><u>240,235</u></u>	\$ <u><u>301,768</u></u>	\$ <u><u>1,745,694</u></u>

**Oscoda County Road Commission
General Operating Fund
Analysis of Revenues
Year Ended December 31, 2005**

	Primary Road Fund	Local Road Fund	County Road Commission Fund	Total
Licenses and Permits:				
Permits	\$ 17,232	\$ -	\$ -	\$ 17,232
Federal Aid:				
Surface Trans. Program	15,668	-	-	15,668
D Funds	13,200	-	-	13,200
US Forest Service	15,526	6,739	-	22,265
State Aid:				
Michigan Transportation Fund:				
Engineering	5,653	4,347	-	10,000
Primary Road	1,314,996	-	-	1,314,996
Local Road	-	1,011,130	-	1,011,130
Snow Removal	-	9,121	-	9,121
Economic Development:				
Rural Primary (D)	6,600	-	-	6,600
Forest Road	100,252	-	-	100,252
Contributions From Local Units:				
Townships	-	173,784	-	173,784
Charges For Services:				
Salvage Sales	-	-	1,812	1,812
Other Services	-	-	381	381
Interest and Rents:				
Interest Earned	12,549	5,778	3,282	21,609
Other Revenues:				
Insurance Recoveries	-	6,198	-	6,198
Gain (Loss) on Equipment Disposals	2,673	34	6	2,713
Total Operating Revenue	<u>1,504,349</u>	<u>1,217,131</u>	<u>5,481</u>	<u>2,726,961</u>
Other Financing Sources				
Proceeds From Lease Purchase Agreements	-	-	-	-
Total Other Financing Sources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Revenues and Other Financing Sources	\$ <u><u>1,504,349</u></u>	\$ <u><u>1,217,131</u></u>	\$ <u><u>5,481</u></u>	\$ <u><u>2,726,961</u></u>

**Oscoda County Road Commission
General Operating Fund
Analysis of Expenditures
Year Ended December 31, 2005**

	<u>Primary Road Fund</u>	<u>Local Road Fund</u>	<u>County Road Commission Fund</u>	<u>Total</u>
Primary Road:				
Construction	\$ -	\$ -	\$ -	\$ -
Heavy Maintenance	174,339	-	-	174,339
Maintenance	978,105	-	-	978,105
Local Road:				
Heavy Maintenance	-	592,225	-	592,225
Maintenance	-	1,290,124	-	1,290,124
Primary Road Structure:				
Heavy Maintenance	24,995	-	-	24,995
Maintenance	-	-	-	-
Local Road Structure:				
Heavy Maintenance	-	-	-	-
Maintenance	-	-	-	-
Equipment Expense (Net) (Per Page 25)	(104,029)	(226,140)	(15,558)	(345,727)
Administrative Expense (Net)(Per Page 25)	143,096	228,765	-	371,861
Capital Outlay (Net) (Per Page 25)	<u>(201,195)</u>	<u>(2,920)</u>	<u>9,321</u>	<u>(194,794)</u>
Total Expenditures	\$ <u><u>1,015,311</u></u>	\$ <u><u>1,882,054</u></u>	\$ <u><u>(6,237)</u></u>	\$ <u><u>2,891,128</u></u>